

City and County of San Francisco

Office of the Controller – City Services Auditor

AIRPORT COMMISSION:

**Compliance Audit of
China Cargo Airlines Ltd.**

GOVERNMENT
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**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits.

Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Elisa Sullivan, Audit Manager
Edwin De Jesus, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

March 16, 2009

San Francisco Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the compliance audit of China Cargo Airlines Ltd. (China Cargo). China Cargo has an airline operating permit from the Airport Commission of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport for its air transportation business.

Reporting Period: July 1, 2004, through June 30, 2007

Landing Fees Paid: \$826,958

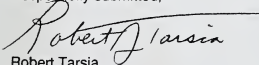
Results:

From July 1, 2004, through June 30, 2007, China Cargo reported 539 revenue aircraft landings, and paid \$826,958 in landing fees to the Airport. However, we were unable to determine the accuracy of most reported aircraft landings and fees, because China Cargo did not maintain complete records of its operations at the Airport during that period, as required by its operating permit. Further, China Cargo relies on another agency to compile and report its aircraft landings to the Airport, and this agency also did not maintain complete records of China Cargo's aircraft landings.

Based on the six months of records that China Cargo's reporting agency provided for January through June 2007, we found that the agency over reported two aircraft landings, which resulted in an overpayment of \$3,146. Further, for this six month period we found that nine landings of aircraft China Cargo leased from Southern Air, Inc. were not reported by Southern Air, an airline with its own operating permit at the Airport. Thus, the Airport should bill Southern Air \$18,915 for those aircraft landing fees.

Responses from the Airport and China Cargo are attached to this report. The Controller's office, City Services Auditor, will follow up on the status of the recommendations made in this report.

Respectfully submitted,


Robert Tarsia
Deputy Audit Director

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library

INTRODUCTION

Audit Authority

The Office of the Controller (Controller) has authority under the San Francisco Administrative Code, Chapter 10, Article 1, Section 10.6-2 to audit, at regular intervals, all leases of City-owned real property where rent of \$100,000 or more a year is to be paid to the City. In addition, the City Charter provides the Controller, City Services Auditor (CSA), with broad authority to conduct audits. We conducted this audit under that authority and pursuant to an audit plan agreed to by the Controller and the Airport.

Background

China Cargo Airlines Ltd. (China Cargo) has an operating permit from the Airport Commission (Commission) of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport (SFO) for China Cargo's air transportation business. The permit, which commenced on May 1, 2003, requires China Cargo to submit to the Airport Department (Airport) a monthly report showing China Cargo's actual revenue aircraft landings by aircraft type, along with other landing data necessary to calculate the landing fees. The Airport charges China Cargo a landing fee based on the maximum landing weight of its revenue aircraft landings at SFO. These landings are those for which China Cargo has received or made a monetary fee or charge. For every 1,000 pounds of aircraft landed, the Commission sets a fee that it may change annually. During our audit period, the Airport's fee per 1,000 pounds was \$3,214 for fiscal year 2004-05, \$3,213 for fiscal year 2005-06, and \$3,336 for fiscal year 2006-07.

Scope and Methodology

The purpose of this audit was to determine if China Cargo complied with the reporting and payment provisions of its operating permit. Our audit period was July 1, 2004, through June 30, 2007.

To conduct the audit, we examined the applicable terms of China Cargo's permit, and the adequacy of its procedures for recording, summarizing, and reporting revenue aircraft landings. We tested whether China Cargo accurately reported on its Monthly Air Traffic Activity Reports (MATARs) its revenue aircraft landings and the maximum landing weights of its aircraft landed at SFO. We also determined whether China Cargo had any outstanding payments due to the Airport for the audit period.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to

obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS

China Cargo Did Not Comply With Certain Provisions of Its Permit and Made Errors in Reporting Aircraft Landings

From July 1, 2004, through June 30, 2007, China Cargo reported 539 revenue aircraft landings and paid \$826,958 in landing fees to the Airport. The exhibit below shows the aircraft landings China Cargo reported to the Airport, and the associated landing fees.

EXHIBIT 1		Number of Reported Landings and Landing Fees Paid			
		July 1, 2004, Through June 30, 2007			
Period/Aircraft Type	Landing Weight (in lbs)	# of Landings	Total Landing Weight (in lbs)	Rate per 1,000 lbs	Landing Fees Due
July 1, 2004, through June 30, 2005 MD 11	471,500	187	88,170,500	3.214	\$283,380
July 1, 2005, through June 30, 2006 MD 11	471,500	174	82,041,000	3.213	263,598
July 1, 2006, through June 30, 2007 MD 11	471,500	178	83,927,000	3.336	279,980
Total		539	254,138,500		\$826,958

Source: Airport reports on landing fees and aircraft landings.

China Cargo Did Not Keep Complete Records of Its Airport Operations

China Cargo did not comply with certain provisions of its operating permit by not keeping complete records of its operations at the Airport. Consequently, we were unable to determine the accuracy of the reported landings and the fees paid for most of the audit period. China Cargo's operating permit requires it to maintain records pertaining to its operation at the Airport for a period of five years after the termination of its permit. China Cargo's sales manager advised us that China Cargo relies on another agency, Pacific Aviation Corporation (Pacific Aviation), to prepare its MATARs for submission to the Airport. However, Pacific Aviation could only provide us records it used to prepare the MATARs from January 1, 2007, through June 30, 2007. Pacific Aviation's airport manager said that their office did not have records prior to this date, because the person in charge of those records is no longer with their agency. Although the records provided for the six-month period enabled us to complete most of our audit tests for that period, the records did not include information on aircraft type and aircraft tail numbers.

Errors in Reporting Aircraft Landings Occurred

For the six-month period that Pacific Aviation was able to provide the records it used to prepare China Cargo's MATARs, we found that it over reported one aircraft landing in January 2007 and one in February 2007, for a total of two over reported landings, resulting in an overpayment of \$3,146.

Further, for the six-month period reviewed, we found nine unreported landings of aircraft that China Cargo leased from Southern Air, Inc. (Southern Air), an airline with its own operating permit at the Airport. Representatives from both China Cargo and Southern Air stated that they were not responsible for reporting those landings and paying the landing fees. However, the Airport issued a memorandum dated August 11, 2004, to all airlines which states, "If a Permitted Carrier operates a flight on behalf of another Permitted Carrier, the airline that actually operates the flight accounts for the flight information on its MATAR and is responsible to pay the associated landing and parking fees." Airport management further explained to us that the "airline that actually operates the flight" refers to the owner of the aircraft, regardless of the commercial flight numbers (China Cargo's) used for the flights. Therefore, Southern Air owes the Airport \$18,915 for landing fees for the nine unreported flights during the six month period we reviewed.

Recommendations

The Airport should take the following actions:

1. Require China Cargo to maintain complete records of its Airport operations until 5 years after the expiration of its permit, as required by its permit.
2. Credit China Cargo for the overpaid landing fees of \$3,146 for the period from January 1, 2007, through June 30, 2007.
3. Bill Southern Air, Inc. for unpaid landing fees of \$18,915 for the nine unreported aircraft landings during the period from January 1, 2007, through June 30, 2007.

ATTACHMENT: AIRPORT'S RESPONSE



San Francisco International Airport

February 26, 2009

P.O. Box 80977
San Francisco, CA 94148-0977
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Fax: (415) 831-7400
www.sfo.ca.gov

Mr. Robert Tarsia
Deputy Audit Director
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Audit of China Cargo Airlines, Ltd.

Dear Mr. Tarsia:

Thank you for your report on the audit of China Cargo Airlines, Ltd. which covers the period July 1, 2004 through June 30, 2007. We accept your findings and will implement your recommendations upon receipt of the final report.

A copy of the "Audit Recommendation and Response Form" is attached for your reference; this form was submitted earlier under separate cover.

Very truly yours,

Cesar K. Sanchez
Accounting Manager

Attachment

cc: Gary Franzella
Dorothy Bon Shao
Ivo Castellanos
Edwin De Jesus
Elisa Sullivan

AIRPORT
COMMISSION
CITY AND COUNTY
OF SAN FRANCISCO

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ADMINISTRATIVE DIRECTOR

Recommendation	Responsible Agency	Response
1. Require China Cargo to maintain complete records of its Airport operations until 5 years after the expiration of its permit, as required by its permit.	Airport Aviation Management	Agree. Upon formal distribution of the Audit Report to the Tenant, staff will prepare a letter requiring the Tenant to comply with the Terms & Conditions of its Airline Operating Permit
2. Credit China Cargo for the overpaid landing fees of \$3,146 for the period from January 1, 2007, through June 30, 2007.	Airport Accounting Department	Agree; the Airport will issue the credit of \$3,146 to China Cargo Airlines upon receipt of the final audit report.
3. Bill Southern Air, Inc. for the unpaid landing fees of \$18,915 for the nine unreported aircraft landings during the period from January 1, 2007, through June 30, 2007.	Airport Accounting Department	Agree; the Airport will bill Southern Air, Inc. the underpaid landing fees of \$18,915 upon receipt of the final audit report.

ATTACHMENT: CHINA CARGO'S RESPONSE



CHINA CARGO AIRLINES

618 S. Access Rd. CHICAGO, IL 60666

Tel: (773)894-3540 . Fax: (773)894-3541

Re: Audit Report

Date: Feb. 17, 2009

This is to response SFO airport commission audit report.

First, we don't agree with that we didn't keep complete records of our Airport operations in the period of year 2004 to year 2007. According to our manager-Jerry Hsu, he did apply most of electronic format records and some of it was in excel format. But due to computer hard drive failure, He lost some data in that period.

Second, we agree with the errors in the landing reports and overstated two flights because of double booking in the audit period of reports.

Therefore, we accept the audit report recommendations.

Thanks you and best regards,

China Cargo Airlines

San Francisco Station

Tel: 650-872-8088 Fax: 650-872-8068

